

E&E Roundtable Discussion Series
Demographic Change in Eastern Europe and Eurasia
Thursday, July 23, 2009 3pm

On July 23, 2009 Robyn Melzig of the E&E Bureau Program Office hosted a roundtable discussion on Demographic Change in Eastern Europe and Eurasia with five Bureau experts from E&E and M/CIO/KM: Sandra Bird, Sarah Lane, Ann Spevacek, Lubov Fajfer, and Jeff Swedberg. Sandra highlighted the potential impact of an aging and declining population in the region (pages 1-2). Sarah and Ann postulated how demographic changes could modify economic growth through the labor and financial market, respectively (pages 3-4). Lubov addressed the issue through the lens of the education sector (pages 5-7). Jeff highlighted salient points in peace and security, lending particular importance to Russia (pages 7-8). Discussion followed (pages 8-9).

Panelists:

Health, Sandra Bird, pages 1-2

Economic Growth, Sarah Lane and Ann Spevacek, pages 3-4

Education, Lubov Fajfer, pages 5-7

Peace and Security, Jeff Swedberg, page 8

Introductory Remarks and Background, Robyn Melzig – E&E

- Discussion sheds light to the fact that since 1990 forward E&E only region worldwide to experience a shrinking population; from 410 m to 400 m; concurrently the world population has increased by 25%
- Identify vulnerabilities, red flags, and risks as well as highlight positive trends to direct how bureau moves forward

Health Impact on Demographic Change, Sandra Bird – M/CIO/KM

- Health Impacts of an Aging Population
 - o Burden of Non-Communicable Diseases: Debunking Myths
 - Most deaths are attributable to older population dying from non-communicable diseases and not infectious diseases in younger populations; 82.7% of deaths in E&E are due to non-communicable diseases, highest worldwide
 - Russia and Ukraine face the “double burden” of disease (high rates of deaths due to chronic and increasing deaths due to infectious diseases, e.g., HIV and tuberculosis) as well as declining fertility rates; both factors contribute to the rapidly declining population. Russia’s population projected to decline over 30% in the next 50 years
 - Gender dimension: Not only men, but for women of reproductive age (15-44), non-communicable diseases comprise the largest proportion of deaths
 - Does not only affect of the elderly; the workforce population (20-64) is affected as well; Estonia study cited 50% of the chronic disease burden occurred in the workforce population
 - o Program Implications
 - Programs are underway to address non-communicable disease: by raising awareness and promoting life style changes both in younger and older populations

Economic Growth effects of an Aging and Declining Population in EE, Sarah Lane, M/CIO/KM and Anne Spevacek M/CIO/KM

- Labor Market
 - Labor Force Participation
 - Reduction in the size of the labor force together with an increased age of labor force which will decrease the younger entrance to the labor force affecting productivity and shrinking per capita income (this is a theoretical prediction based on factors of production labor and capital; economic growth declines when one factor of production declines, but does not take into account possible productivity increases –technology)
 - Varying trends across the region
 - Country Comparison: (younger countries in Central Asia will fare better)
 - Within the country comparison: rural areas disproportionately affected
 - EU member countries will fare better
 - Region plagued by a weak labor force over the past 20 years
 - Men in the region retire 4 years before their western Europe counterparts on average
 - Increase in labor force is needed to maintain a consistent level of the working population; Theory of older workers are less productive; however the findings are mixed/ as aging population increases, more people in the informal sector due to rigid migration policies and wages in the informal sector
 - Increased Migration
 - Problems Associated with Migration
 - Most countries are currently experiencing a negative net migration due to wage differentials and labor market demand
 - Brain drain: most talented are going to other countries
 - Diminished tax base as the formal sector declines
 - Replacement migration policies, short term solution
 - Russia would need 1 million annually to curb off their negative population growth
 - Positive Impact of Migration Trends
 - Circular migration is becoming more popular
 - Programmatic Implications
 - Countries could incentivize remaining in home countries
 - Increase labor force with older workers through intraregional migration
 - Build bridges to leave and return freely
 - Investing in Human Capital
 - Programmatic implications
 - Additional programs focused on increasing underutilized populations (women, older populations, and youth) without discouraging fertility
 - Programs promoting a decent wage in the formal labor market to encourage and incentivize formal labor
 - Focus on developing productivity; active labor market

- As the population grays, there could be a push towards development in creating skills and human capital in health services
- Reforms are needed to enhance health and education improve labor market efficiencies
 - Populations with high skill sets have a tendency to migrate, EE countries left with lower-skilled workers who tend to flow to informal sectors
 - School age populations will decline as fertility drops which will free up funding for worker re-training, advancing workers education as a whole
 - invest in quality and not worry about quantity;
 - Additional training possible and contribute to economic growth; promote the knowledge base
 - active labor market produced
- Financial Sector Effects
 - Pensions: not just a budgetary issue, but an economic concern
 - Proliferation of pensioners which will lead to a weakened tax transfer system which could potentially put increased pressure on government budgets and deteriorate the life status of the elderly
 - Sustainability will require increased contribution and economic growth, but this problem is compounded by the fact that there will be fewer people to tax
 - Currently five workers for every pensioner, but projected to change to two workers for each pensioner
 - Public funding for pensions will decline as workforce declines, necessitating a need for private funded system; cradle to grave mentality of social safety nets is problematic; “pay-as-you-go” systems are fraught to high administrative costs and are most vulnerable to demographic transitions
 - Growing informal sector which is not covered in the system, nor do these individuals set aside money for retirement
 - Positive/Program Implications
 - Defined contribution pension systems that are implemented well can help develop the financial sectors
 - Governments should focus efforts to mobilize savings to develop financial markets
 - Continue work of DGST on pension reforms using a mix of private and “pay-as-you” go systems
 - Portable Pension as you go across borders – flexible instrument implemented by the EU
 - Increase retirement age; seen as a solution for countries where life expectancy is increasing
 - Savings Rates
 - Life Cycle Hypothesis of Savings: people do not save in the beginning nor at the end of their life; rather they save in middle; use savings to smooth consumption over time
 - not a lot of evidence; rather more evidence points towards that Elderly may save for end of life events like illness or bequests

- Fear that when elderly divest securities and move into consumption that asset prices will decline, but still theoretical and not much evidence

Demographic Trends in Education: Challenges and Opportunities, Lubov Fajfer

- Important Questions to Consider
 - Education is closely related to economic development potential
 - The triple challenge of population declines, aging, and negative net out-migration raising certain issues for the education sector
 - What are the implications of these trends for the countries' population declines on education sectors? Note some countries have smaller rates of decline.
 - What implications do intra-regional and out of region migration trends?
 - What adjustments do countries need to make to support and sustain economic development?
- Development Context
 - There exists a general agreement among scholars on the following:
 - Countries with appropriate macro and micro-economic policies and increased levels of (relevant) education are directly correlated with economic growth through increased per capita incomes and overall economic development
 - E.g. Tajikistan, may have well educated people, but not the structure to maximize their productivity and utilize skills
 - Increases in inputs promote economic development up to a certain point. After plateau, further growth gains happen at the expense in gains in productivity, efficiency, and innovation
 - Debate on the size of a country's working population (active labor force) is more important for sustainable economic development than the population size. However, more research is required to better understand the determinants of a country's economic performance; size needs to be large enough to sustain development
- Issues for Consideration
 - Population Pressures
 - Positive Pressure:
 - Countries (Albania, Armenia Azerbaijan, and Kosovo) projected increase or high level of school age population; declining population, but will retain a fairly high level of demand for primary/basic education and post secondary education for the next 25 years; Poses challenges the level of demand for education services in terms of development and ability to introduce certain types of reforms
 - Others face declining populations; but they do face different types of challenges in terms of their education reforms; how do they approach their declining populations? Striking to see which cohort declines more? There seems to be less decline for basic education, but there is a more drastic decline for those who would go into higher education; affects needs for human capital development, innovation, efficiency and institution building
 - Labor force; consideration should be given to both size and within the educational system

- Both insufficient number of teachers and well trained teachers; drastic deterioration in quality
 - Level of government support for education
 - OECD average education expenditure of is 5% of GDP; most of countries in region (without Moldova and Ukraine) is 2.6% and 3.5%, not evidence of a strong commitment towards education, or inability to exert the resources
 - Role of higher education in knowledge production, dissemination, and innovation. Promoting and sustaining development; if countries are to grow, they will require innovation efficiency gains
 - Internationalization of higher education (Bologna Process) and implications for higher education reforms.
- Challenges
 - Ability and readiness (political will) of countries to undertake the necessary reforms to improve education quality at all levels and accommodate the current demand and declining population trends (# of universities, structure, financial support)
 - Need to increase secondary and tertiary enrollments in several countries
 - Reducing numbers/size of tertiary education
 - Affect the institutions' financial sustainability; the trade off may lead to compromises in quality
 - Calls into question survivability
 - E.g. Ukraine: has place for everyone, but only those who can afford it; some universities will inevitably close, education quality may suffer
 - Create effective systems for continuing education and retraining
 - Unpredictability of future migration patterns:
 - Who is likely to migrate (permanently or cyclically) – the brain drain -- brain gain debate of short, medium, and long-term losses and/or gains;
 - Losses of the most able population to engage in and support institution building and education reforms
 - How should the education sector adjust to this? What policies need to be put in place?
 - Some have argues that anticipated shrinking school-age population will allow for cost-saving and reallocation of the savings to increase education and training of the older workforce
 - Given the current lack of education relevance, such a policy would most likely further undermine the achievement of qualitative gains in education; E.g. government in Germany decided under no circumstances decrease education support – instead, implement reforms that will result in education systems that support country's competitiveness. There will be a push to move savings along
 - How realistic would such a requirement be for the E&E countries? Do small countries represent a special case for an education reform?
- Opportunities
 - Migration to development hubs may increase demand for more and better education on the part of the supply countries, pushing education reform along
 - Internationalization of education (higher education market) linked to the Bologna Convention that tries to promote mobility in higher education
 - As the most developed countries may lead to increased involvement of those countries in the education systems of the 'supply' countries and promote education quality; cheaper to

- train in “supply country” than in “host country” (US has done this) more realistic in some countries rather than others
- Improvements in higher education in the E&E countries can attract more foreign students from the third (less developed) countries; this would help support continuing improvements to sustain development needs. Encouraging non-traditional non-historical migration flows
- Recommendations:
 - Education reform should play a central role in the country’s development strategy. This is especially important for countries with declining population trends.
 - Maintain and whenever possible increase support for education to implement quality enhancing reforms.

Peace and Security, Jeffery Swedberg EE/PO and Ray Robinson M/CIO/KM

- Why Russia?
 - Long Standing Rival
 - Scale
 - 750,000 fewer people every year (population the size of Montana); 30%-40% decline by 2050; Current population 140 million, 100 million by 2050; from 4th to 20th place; representing the biggest population drop since 14th century
 - Demographic Shifts: young men 15-24 (fall to 6 million 2025) down from 10-13 million
 - Regional Shifts: Far east have and will see a larger contraction 15%; overall, 1.5% decline in population
 - Trend is clear, no matter what incentives put in place, population loss is inevitable
- Overall Trends and projections/conclusions
 - Resentment as ethnic Russians represent a smaller proportion of the Russian federation
 - Fertility rate has not gone below replacement rate in two non-Russian majority regions (Dagastan and Ingushetia, major sources of major instability and unrest; Muslim Russians are politically alienated –North Caucus will make up a larger portion of the Russian Population
 - Similar attacks found in Bulgaria with the “Attacka” nationalistic party
 - Russia – attacks against immigrants (from the CIS region) providing demographic balance and labor, but there is a lot of resentment- empirical data to tally racist attacks is difficult; but there is a steady uptick of racist attacks in Russia (2008 97 people killed in racist attacks, 85 2007, 2004 50); attacks primarily performed by youth males the population seeing the decline
 - Russia is experiencing a “Reverse Youth Bulge”
 - Youth bulge can be problematic there have been studies that support that countries with youth bulges tend to be less stable and more corrupt; the young men in these youth bulges tend to be the instigators of the violence
 - Reverse youth bulge in Russia; will that translate to a more peaceful society? no, ethnic violence and terrorism, all the qualities that you would find in a youth bulge society, despite the negative demographic growth; scholars are unclear
- Russia will continue declining as a World Power

- “Graying Of Great Powers” Study (CSIS) – predict that Russia is going to lose its great power status – having a large population for a country with military ambitions is important; enhance prestige etc. this may result in a failed state
- Military expenditures: Russia spends 3.6% of GDP on military, lower than US; whereas in 1989, it was 17 %; in line with other large nuclear powers (China, France, UK, US)
- Expenditure as % central government expenditure exhibits similar declines
- Total armed forces personnel, Russia has 1.4 million, less than the US, and China, and comparable with other great powers, signs that will come down—plan on transitioning into an all volunteer force, 1 million
- No overtly militaristic Russia – long term, you are going to see a less of a great power, and less of a threat in term of peace and security—but still internal challenges that need to keep a close eye on.

Discussion:

Robyn: Upcoming tentative Roundtable discussions: social protection, evaluation and migration

NEAL: Lot of places people worry about the growth of population and the strain of resources. Is it good or is it bad? Wouldn't we want to see a global decline?

- SARAH: projections are notoriously bad; It's hard to say what the world is going to look like in 40 years
- ANNE: There are three different theories. Some believe negative, positive, neutral. This panel discussion represents a mixture of beliefs
- NEAL: Maybe we just have to work through them
- CATHY: Stabilized population growth is the goal. Neither extreme is good, we should target around the middle to maintain replacement rates
- LUBOV: The question that declining population comes down to is economic potential: What countries are we looking at? It exposes the lack of structural reforms and quality. The challenges are not understood well enough to promote qualitative change (in education); yet the challenges are real and also is reflected in productivity
- FOREST: when you pull it apart, certain universal values that we all need to wrestle with: is economic growth something that we need to pursue? it will direct the tenets that we advocate; Sarah pointed productivity and economic growth --- is that really a good thing, and what are we actually seeing? we aren't finding increases in productivity outside of extractive sectors; and perhaps this points out to deteriorating
- NEIL: Goals should be towards increasing individual well-being; not GDP or volume of population
- JEFF: Demographic trends are similar throughout Europe; real problem in Eastern Europe is the increased death rates – as high as 170 deaths for every 100 births, that is a sign that something is going wrong in the society, and the death rates are startling, spiking

ROBYN: Among the males, vulnerable – largest adult mortality gender gap and life expectancy gender gap especially males in Eurasia

- Caryle: Russia; Jeff and Russia: China – increased population, what do they represent towards Russia?!?! JEFF: Russia far-east is primarily problematic, they went there back in the day because they were exiled – standing in the face of China's population is startling; C

CARYLE: What would be a constructive pronatalist policy for Russia?

- SANDRA: historical examples where economic incentives have worked; long term, the literature is unclear
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